LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
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FISCAL IMPACT STATEMENT

LS 7080 **DATE PREPARED:** Jan 14, 2001
BILL NUMBER: HB 2130 **BILL AMENDED:**

SUBJECT: Enterprise Zones.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: *Qualified Employee Wage Deduction:* This bill provides that a pass through entity is a taxpayer for purposes of allowing a qualified employee of a pass through entity to take an Enterprise Zone (EZ) Employee Wage Deduction. It also provides that a person who resides in an EZ and is an employee of a nonprofit entity or local, state, or federal government is eligible for the Qualified Employee Wage Deduction.

New EZ date extension: This bill extends from December 31, 2003, to December 31, 2015, the date beyond which the State Enterprise Zone Board is prohibited from adding new EZs.

Effective Date: July 1, 2001; January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms and instructions to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Qualified Employee Wage Deduction:* This bill make two changes to the eligibility requirements for the Qualified Employee Wage Deduction:

(1) This bill expands eligibility for the Qualified Employee Wage Deduction (which allows a taxpayer to deduct certain income from his/her Individual Adjusted Gross Income Tax liability) to include EZ residents who are employees of "S" corporations, partnerships, trusts, limited liability companies, and limited liability partnerships. Currently, only EZ residents who are employees of regular corporations and sole proprietorships are eligible for this deduction.

(2) This bill would also allow EZ residents employed by nonprofit entities, local units of government, the state of Indiana, and the federal government to claim the Qualified Employee Wage Deduction.

It is unknown how many additional individuals might be eligible under the provisions of this bill. The deduction is available to EZ residents who are employed within the Zone. These individuals may deduct the lesser of one-half of income earned within the zone or $7,500 from their state taxable income. For each eligible taxpayer who is able to deduct the maximum of $7,500, there would be a reduction of $255 in income tax liability ($7,500 multiplied by the Individual Adjusted Gross Income Tax rate of 3.4 %). According to DOR data, in 1998 there were 1,791 taxpayers who deducted a total of $11.5 M in personal income, resulting in a tax liability reduction of $391,000. For each additional 1,000 employees who are eligible under this proposal, there would be a corresponding revenue loss of up to $255,000.

The expansion of this deduction is effective January 1, 2002 and will affect revenue collections beginning in FY 2003. Individual Income Tax revenue is deposited in the General Fund.

New EZ date extension: This bill would extend the deadline for establishing new Enterprise Zones by twelve years from December 31, 2003 to December 31, 2015. The effects of the economic development associated with EZs and the various corporate and individual tax incentives available to Zone business and residents cannot be determined. The impact ultimately depends on the number of zones established and their size and location. There are currently 25 EZs in Indiana including three former military bases. The two newest Zones in Mitchell and Portage were established in December 2000.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Qualified Employee Wage Deduction:* Counties imposing local option income taxes will experience an indeterminable reduction in revenue from these taxes as a result of expanding the pool of taxpayers eligible for this deduction.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties imposing local option income taxes.

Information Sources: DOR income tax data; Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962.